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27 February 1958

CURRENT INTELLIGENCE WEEKLY SUMMARY



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CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

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PART I**OF IMMEDIATE INTEREST****INDONESIA**

President Sukarno is scheduled to make a major speech on 3 March in which he is expected to call for an all-out campaign against the Sumatran and North Celebes rebels and their sympathizers. This address presumably will be an appeal to the people over the heads of any military and political leaders who may be reluctant to support his decision to use force.

Sukarno is also likely to renew charges of Western involvement in the dissident movement, and probably will expand considerably on the subject of "imperialist attempts" to divide the country. The 20 February incident in Makassar Strait in

which a Dutch destroyer seized and disarmed a former Dutch merchant vessel now manned by Indonesians may be used as the basis for new and stronger charges of Western interference in Indonesian affairs.

The struggle between the dissidents and the central government is intensifying ethnic antipathies between Javanese and non-Javanese, as evidenced by recent reactions to bombings by the government's forces. Sukarno, however, has gained significant political support among non-Communist Javanese political leaders during the past week, and has the continued firm

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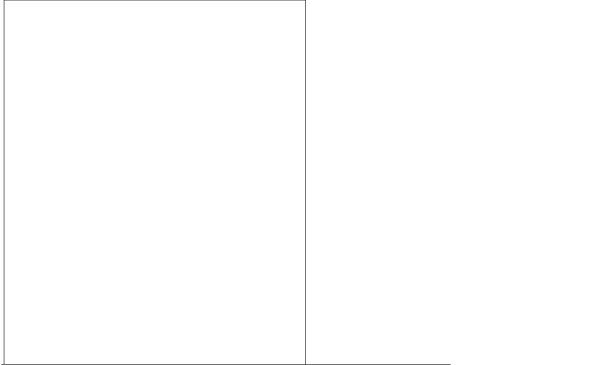
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support of the Communist party, which is chiefly Java-based.

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Army Chief of Staff General Nasution, who supports Sukarno,



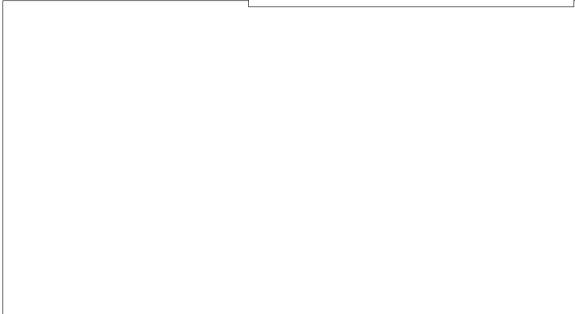
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[redacted] is faced with the uncertain loyalty of many military units in Java from which troops almost certainly would be recruited, and with the fact that considerable forces are necessary in West and Central Java to contain the long-standing Darul Islam armed dissident movement. Troops from East Java are nevertheless reported assembling in Djakarta presumably for use in the dissident provinces. Djakarta has already sent commandos to Gorontalo in rebellious North Celebes to support a small body of troops there who had announced their continued loyalty to the central government.

The Indonesian Air Force may soon be forced to curtail air operations against the dissidents because of high octane fuel shortages. An alleged request to Singapore by the Djakarta government for urgent delivery of 13,000 gallons cannot

be satisfied because of a decision by the Singapore government to ban shipment of war materiel to both contending forces in Indonesia. The Djakarta request suggests that South Sumatra, Djakarta's normal source for high-octane fuel, is denying supplies to the central government.

The rebels have moved their headquarters from Bukittinggi to an undisclosed location in the hills to avoid further air attack and apparently are continuing to count on the support of sympathetic forces in the military districts both to the north and south.

Lt. Col. Barlian in South Sumatra has stated he will not permit government troops to move through his command, and all non-Communist political parties in his province on 26 February demanded the resignation of the Djuanda cabinet in Djakarta. The Atjehnese in North Sumatra, also an armed dissident group of long standing, have made no open declaration of support for the rebels but may attack the pro-Djakarta area around Medan if government troops attack Cen- 25X1
tral Sumatra. [redacted]



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PROSPECTS LESSENING FOR SETTLEMENT OF FRENCH-TUNISIAN SITUATION

Bitterness against France is now so widespread in Tunisia that President Bourguiba probably would not be supported in efforts to achieve a rapprochement with Paris.

The basic disparity in views between France and Tunisia regarding the subjects to be considered under the US-British good offices proposal shows the almost impossible task to be

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faced in getting France and Tunisia to negotiate. Bourguiba's government has stressed that a solution of the Algerian war must be "the keystone of American policy in North Africa" and that consideration of Tunisia's internal problems must not be allowed to interfere. Bourguiba opposes any Tunisian participation in an international commission to patrol the Algerian-Tunisian border. Paris, on the other hand, is adamant that the conflict in Algeria not be discussed because such talks would internationalize the problem.

President Bourguiba is not likely to back down regarding Algeria because of Tunis' strong sympathies with the Algerian nationalists, the presence of at least 60,000 Algerian refugees and several thousand armed nationalists in Tunisia, and his strong belief that no North African state can enjoy political stability until the Algerian problem is settled.

Bourguiba has already lost the support of many politically minded Tunisians--90 percent oppose his "conciliatory" policies

He has been censured for not pressing his case in the UN Security Council, for having "conceded victory" to France in accepting Anglo-American good offices, and for not keeping pressure on the United States and France to withdraw all French troops. He made a strong bid for popular support when he rejected Paris' proposal of 22 February to regroup the 22,000 French forces in Tunisia, and charged that the proposal to transfer over half of the 4,000

French troops in the Tunis area to the base at Bizerte and concentrate almost all of the forces south of Tunis at Gafsa, Sfax, and Gabes was a tactical measure to improve the French military position and was not designed to prepare the troops for embarkation, as demanded by Tunis.



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RIGHTISTS MAY ABANDON FRENCH PREMIER

French Premier Felix Gaillard's right wing threatens to abandon the government during the current budgetary debate, and other elements of his coalition are becoming restive. Leaders of the left and center parties are probably still reluctant to risk a crisis; their decision may hinge on the course of US-British good offices on the Tunisian issue.

On 18 February, the Independents voted solidly against Gaillard's equivocal proposals on the Bizerte question. Both Antoine Pinay and Roger Duchet, fearful that the premier might relinquish full French control of the base, appear determined to bring about his fall. Discussion of the budget, which started on 26 February, is expected to reopen the Tunisian issue, on which Pinay and Duchet may press an all-out attack.

The premier is also faced with loss of both his Socialist and Popular Republican support. The American Embassy in Paris has reported a growing "aloofness" among the Socialists, who were embarrassed because the government's authority was apparently flouted when Sakiet was bombed. There is also a growing unwillingness within the Socialist party to back Lacoste's Algerian policy unreservedly.

The Popular Republicans, who have thus far stood behind the government on all issues, have disapproved of Gaillard's acquiescence in sending his proposed constitutional amend-

ments back to committee. They have since been mollified by the cancellation of debate on electoral reform measures, which they feared would lead to a new system limiting their chances in future elections. This step, however, has further alienated the coalition's right wing--the Independents and many Radicals.

Despite the attitude of Pinay and Duchet, most of the leaders within the coalition are probably unwilling to risk a crisis now. Nevertheless, some steps are apparently being taken to try to limit the duration of the next crisis by lining up a successor government prior to Gaillard's fall. Ex-Premier Rene Pleven is being mentioned as an agreed candidate whom both Socialists and Independents would support. Similar deals have been contemplated in the past, but have not worked out.

In an effort to head off a vote of no confidence, Gaillard can be expected to emphasize the importance of supporting British and American good offices on the Tunisian issue. This tactic may boomerang, however, as the right becomes increasingly incensed over Bourguiba's determination to include Algeria as a topic in any discussion of French-Tunisian relations. If the right should muster all its strength on this issue, the full support of Gaillard's left and center coalition partners might not be sufficient to pull him through.

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PART II

NOTES AND COMMENTS

MIDDLE EAST DEVELOPMENTS

Gamal Abdul Nasir, in visiting Syria accompanied by other high Egyptian officials, appears to be trying to make the most of the emotions worked up by the plebiscite last week which made him President of the United Arab Republic (UAR). On 26 February he made his first public attack on the Iraqi-Jordanian federation, citing it with the Baghdad Pact as a union created by the "imperialists" to oppose the real will of the "Arab people." Nasir's move probably presages another Egyptian-Syrian campaign to intimidate King Saud from supporting the federation and to undermine King Husayn.

The Egyptian leader may also be gaining a first-hand look at the Syrian political situation; he soon will have to name the persons who will head the local Syrian government. Syrian Foreign Minister Bitar, one of the leaders of the radical nationalists, is reported ready to visit Cairo again to help work out some of these problems.

During Nasir's visit, Syrian G-2 chief Sarraj and Chief of Staff Bizri have been most prominent among Syrians seen with Nasir on public occasions. Bizri, whom Nasir had previously indicated he wished removed, last week was particularly friendly to the American military attaché during a Soviet party; he may be still trying to erase the impression that he is pro-Communist.

The Iraqi-Jordanian federation--which apparently will be officially transliterated as the Arab Union (AU)--has not enjoyed a similar succession of psycho-

logical boosts. Almost three months are supposed to elapse before the federation's constitutional committee will complete its work.

While the new federation is not popular in Jordan--there have been demonstrations in Nablus in West Jordan which compelled the government to close schools there--it probably has given some further sense of stability to the government. This in turn seems to be encouraging Husayn's ministers to take a firm stand against subversive agitation. They intend to crack down on a "new" conspiracy by radical nationalist army officers, and some cryptoleftists high in the civil service have been fired. Jordan's security situation, however, still does not seem likely to improve much over the long run and would deteriorate rapidly if Nasir decided to mount a full-scale subversive attack.

The Jordanian and Iraqi leaders continue to seek closer support from King Saud. Foreign ministers of the two countries went to Riyadh on 26 February to "explain" their union further and probably to tempt him into more forthright gestures in their favor.

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Saud's smaller neighbors along the Persian Gulf are the subjects of a number of

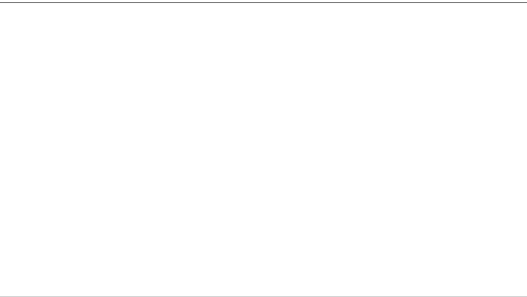
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rumors regarding their future association with Saudi Arabia, the UAR, or the AU. These rumors have focused mainly on Kuwait, whose oil revenues would be a welcome addition to the income of any of the Arab states. The Kuwaiti populace favors the UAR; however, there is no indication at this time that the ruling family, which has been torn by disagreement over the eventual successor to the present ruler, has any significant interest in exchanging its present profitable relationship with Britain for Arab domination. A similar situation probably prevails on Bahrein, with the added complication of Iranian claims to sovereignty over the island. Tehran has been much exercised recently over any possible shift in Bahrein's status.

The Egyptian-Sudanese dispute over the status of three border areas appears to have calmed.



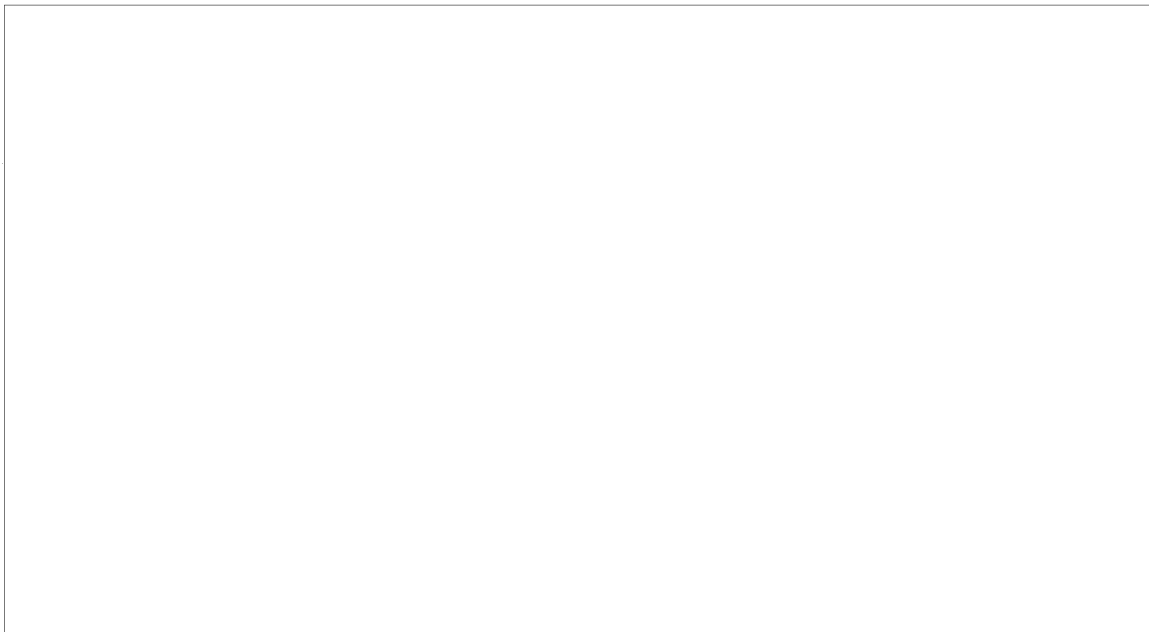
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The Sudan's parliamentary elections began on schedule on 27 February and are to continue until 8 March.

Military movements along the Egyptian-Israeli border may presage new tension in that area, which has been quiet since the Sinai campaign. The general Israeli posture of very watchful waiting was underlined by Prime Minister Ben-Gurion's press conference statements this week which in effect put the West on notice that even the pro-Western Iraqi-Jordanian federation is viewed by Tel Aviv as a distinctly unfavorable development.

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GOVERNMENT CRISIS IN FRENCH CAMEROONS

The fall of the Mbida government in the French Cameroons, recall of the French high commissioner, and continuation of guerrilla warfare by a Communist-dominated nationalist movement are symptomatic of instability in this African territory.

The fall from office on 16 February of Premier Andre Mbida, the first African to head the government since the grant of internal autonomy to the trust territory by France in 1956, was caused by the

an early date for Cameroons independence and to foster the reunification of the British and French Cameroons.

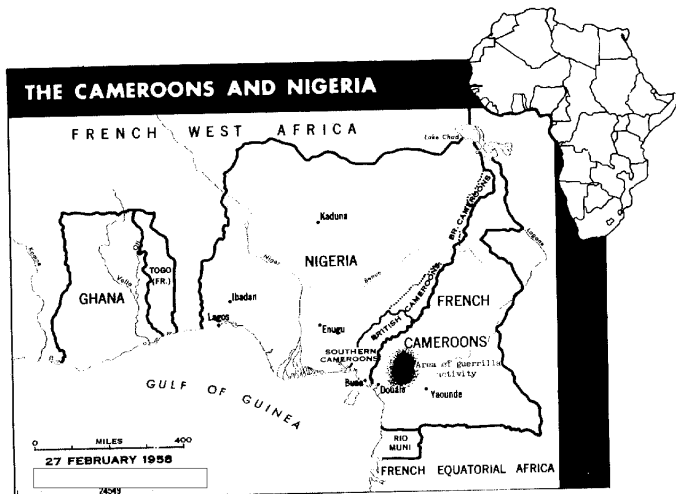
Paris decided to remove High Commissioner Jean Ramadier after only a two-week tenure in Yaounde, following charges by Mbida that Ramadier interfered in local politics. Messmer, the previous French high commissioner, was removed in late January because of disagreement with Minister of Overseas France Jacquet on the date for independence. This spring

the minister intends to set the date, probably sometime in 1960, in full recognition that Cameroons independence will set a precedent for other French possessions in tropical Africa.

An outstanding problem which the new government must face is the Communist-dominated, outlawed movement, the Union of the Cameroons People (UPC). The UPC was responsible for an abortive uprising in Douala in 1955, and since then has kept

up its antigovernment propaganda, particularly from Cairo, where several leaders took refuge following the Douala incident.

The UPC engaged in violence during the December 1956 elections campaign, and during the past several months has carried out guerrilla warfare in the southwestern forested area of the Cameroons. With an estimated 400 tough fighters, the UPC has killed, wounded, or kidnaped about 150 persons. Its members murdered a deputy of the legislative assembly,



personal animosity between Mbida and other African leaders, who feared his request for strong powers to control anti-government agitation would be used against rival politicians.

The new premier, Ahmadou Ahidjo, is a member of the same pro-French party as Mbida and was deputy premier in the former government. In an effort to keep extremists from profiting by the government crisis, Ahidjo's government will probably increase pressure on Paris, however, to set

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burned 60 villages, and have tied down several hundred French and Cameroons troops. In December, France sent two infantry companies to reinforce the 1,500 French troops in the Cameroons and prevent the development of a situation similar to that in Algeria.

The UPC's potential is strong in the political field,

where demands for independence and unification find growing popular support in the southern areas, and its international connections suggest possible foreign support. Its activity at the Afro-Asian Solidarity Conference at Cairo won the UPC's delegate a seat on the permanent secretariat responsible for colonial matters.

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ORGANIZATION ESTABLISHED FOR TECHNICAL COOPERATION IN AFRICA

A new intergovernmental organization--the Foundation for Mutual Assistance in Africa South of the Sahara (FAMA)--designed to facilitate the exchange of technical assistance to the area, was officially launched on 20 February at a conference in Accra, the capital of Ghana. Eventual inclusion of other independent African states might end inter-colonial rivalries and begin technical cooperation between African entities.

The parent organization of FAMA is the Commission for Technical Cooperation in Africa South of the Sahara (CCTA)--which includes Britain, France, Belgium, Portugal, South Africa, the Federation of Rhodesia and Nyasaland, Liberia, and Ghana. CCTA agreed in 1954 to establish the foundation for the expansion of technical assistance. The foundation is to act as a clearing house for offers of, and requests for, technical assistance among countries in the area, and serve to bring interested parties together. It will supervise the expenditure of funds for experts, advisers, and teaching material, but will have no funds itself for aid allocation. All countries of Africa south of the Sahara, including nonmember countries,

will be eligible to receive technical assistance under the aegis of FAMA.

Membership in the foundation presumably will be limited at the outset to present members of CCTA. Invitations to join the new organization, however, will probably be extended to non-CCTA member countries with territorial responsibilities in Africa south of the Sahara, including the Sudan, Ethiopia, Italy, and Spain.

Participation in FAMA by countries without territorial interests in Africa--such as the United States, West Germany, or the Netherlands--was favored by members prior to the Accra conference. The American observer at the conference, however, stated that most delegates showed considerable coolness to such participation at this time. This attitude may be an attempt to forestall any Soviet attempt to participate in the foundation. In fact, some members regard the organization as a way to counter increased Soviet influence in the area, the threat of which was underlined by the USSR's recent "offer" of aid to underdeveloped countries and announcement of an intention to establish diplomatic relations with Ghana.

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THE POSTELECTION SITUATION IN ARGENTINA

The wide margin of victory for Arturo Frondizi and his Intransigent Radical party in the Argentine general election of 23 February has diminished the possibility that conservative military elements will attempt to prevent Frondizi from taking office on 1 May. Frondizi's party won all 22 provincial gov-



FRONDIZI

ernorships, over two thirds of the seats in the Chamber of Deputies, and may control the entire Senate, which will be selected by the incoming provincial legislatures during March.

Provisional President Aramburu and Vice President Rojas are believed disappointed with the outcome of the election, but they have publicly reiterated their determination to prevent military interference in the political process.

At the same time, however, supporters of exiled former President Peron--to whom Frondizi owes a substantial measure

of his victory--are inviting military unrest by making public demands on Frondizi. During the campaign, Frondizi openly promised most of the things the Peronistas are now "demanding" --a general amnesty and an end to restrictions against Peronista political and labor organizations. Frondizi has said he will let Congress decide whether Peron should be permitted to return.

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In addition to these political problems, Frondizi will be

ARGENTINE ELECTIONS
OF 23 FEBRUARY 1958
(NEARLY COMPLETE RETURNS)

PRESIDENCY

POPULAR VOTE	
Frondizi	4,086,653
Balbin	2,581,964
Others	2,644,006
Blank votes	687,377

ELECTORAL COLLEGE (ABSOLUTE MAJORITY REQUIRED)

Frondizi	319
Balbin	142
Others	5
	<hr/> 466

CHAMBER OF DEPUTIES

Intransigent Radicals	133
(UCRI) (Frondizi)	
Popular Radicals	52
(UCRP) (Balbin)	
Liberal Party of	
Corrientes Province	2
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confronted with extremely serious economic and foreign exchange difficulties and will probably seek large-scale foreign assistance. He has not been especially friendly toward the United States, but he has already put out feelers on Washington's attitude toward loans to Argentina.

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POLITICAL PROSPECTS IN BOLIVIA

The prospective visit to Bolivia of former President Paz Estenssoro, now ambassador to London, promises an unusually critical period in mid-March for the government of moderate President Siles Zuazo. Paz' reported intention to reunite the government party, the Nationalist Revolutionary Movement (MNR) which he still heads, may presage an attempt to restore the balance between the leftist critic of the stabilization program, Juan Lechin, and the program's leading backer, President Siles--a balance which during the past year has tipped increasingly in favor of Siles. Paz' visit was probably timed to coincide with the MNR's convention to nominate candidates for the late spring congressional elections.

During Paz' term of office from 1952 to 1956, he was regarded both as a national hero and as Bolivia's one politician sufficiently adept to persuade leftists and moderates to work together. During the past 18

months, however, his reputation has suffered from apparently well-founded charges of corruption and contrasts with that of his politically effective but simpler and more straightforward successor. In several clashes during this period between Siles and labor leader Lechin, Paz from London has tended to support Lechin. Over the past year and a half Siles has nevertheless gained sharply in popular appeal at the expense of the labor leader.

Nominations for next spring's elections--for one half of the deputies and one third of the senators--will be decided at the forthcoming convention of the MNR, the party which polled 82 percent of the total vote in national elections in 1956. During the convention prior to the 1956 elections, Lechin dominated the congressional nominations, while the moderates gained the presidential nomination for Siles. For the 1958 convention, however, pro-Siles forces, supported

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by leftists in rivalry with Lechin, apparently have felt no need to make a similar compromise. Early in January, the government-owned La Nacion, throwing the concept of party unity to the winds, suggested that the disgruntled leftists withdraw from the MNR and form a "constructive opposition."

Under these circumstances, efforts by Paz Estenssoro to regain party unity may weaken the Siles government, persuade it to compromise with the pro-Lechin group, and undermine its attempt to implement the US-backed economic stabilization program.

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COMMUNISTS CONTINUE PRESSURE FOR KOREAN SETTLEMENT

The Communists are sustaining their diplomatic and propaganda offensive for a Korean settlement launched earlier this month. The Soviet Foreign Ministry on 20 February issued a statement urging that Korea be made a nuclear- and missile-free zone and proposed that a "conference of interested states" be convened to discuss a Korean settlement.

The Soviet statement was issued with an eye to neutralist support for the Communist position. Indian Prime Minister Nehru suggested last January that the concept of a nuclear-free zone be extended to the Far East. New Delhi was apparently given advance notice of Peiping's intention to withdraw its forces unilaterally and is expected to urge--informally at least--UN withdrawals. V. K. Krishna Menon publicly stated on 17 February that withdrawal of foreign forces from Korea would remove one of the deterrents to seating Peiping in the UN and declared that if the "other side" responded to the Chinese withdrawals, "it would be a great force for peace."

The Chinese Communists are hopeful of isolating the United States from the other 15 nations in the UN Command. On 20 February, the Peiping People's

Daily claimed that other UN Command nations "have not been inflexible" on the issue of troop withdrawals and declared that the United States will "feel more isolated than ever" if it continues to reject Communist proposals. In an effort to maintain Western solidarity, the British are urging that the UN Command nations work out a common position at an early meeting, lest they respond to new Communist initiatives "with different voices."

On 24 February the North Korean - Chinese Communist command called a meeting of the Military Armistice Commission to reiterate Pyongyang's proposals for a Korean settlement--the withdrawal of all foreign troops, elections to be held under supervision of "neutral" nations, North-South negotiations, and reduction of North and South force levels.

The hijacking of a South Korean airliner on 16 February has provided the North Koreans with an additional bargaining weapon in their efforts to bring about North-South negotiations. North Korean spokesmen are insisting that the release of passengers desiring to return to the South depends entirely on South Korean willingness to enter into direct talks with Pyongyang. Seoul is aware of

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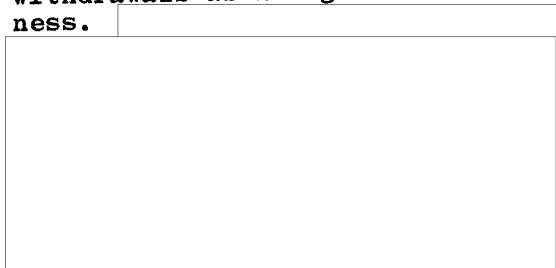
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the Communists' desire to undercut Rhee's contention that the South Korean Government is the only Korean government and has flatly rejected all overtures for direct talks.

South Korea is holding mass demonstrations in Seoul in reaction to the airliner incident and is carrying out maneuvers involving 50,000 troops adjacent to the demilitarized zone. Although President Rhee has refrained from threats to take violent action, the Communists seem wary

that he might consider Chinese withdrawals as a sign of weakness.



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Chinese military spokesmen have threatened to re-enter Korea in the event of renewed hostilities.

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SINO-JAPANESE TRADE TALKS TO BE RESUMED

The return to Peiping of a Japanese trade delegation with new proposals for an unofficial trade agreement and for an exchange of permanent trade missions indicates that strong domestic pressure for increased trade with the China mainland is forcing the Kishi government toward recognition of Communist China. The proposals, which were developed by Tokyo following Peiping's rejection of Japanese terms last fall, would relax entry requirements for Communist Chinese trade representatives and accord them certain diplomatic privileges in Japan.

The Japanese Government has avoided official negotiations with Communist China on the trade issue and, instead, has worked through private trade representatives to conclude a fourth unofficial trade agreement to replace the one which expired in May 1957. Peiping, however, has made the conclusion of an agreement contingent on a political accord to exchange trade missions, which can be decided only by the Japanese

Government. Under pressure from many sources, including all political elements, the Kishi government has obtained Diet passage of legislation relaxing fingerprinting requirements for aliens and has authorized its trade delegation to offer some diplomatic privileges to prospective Chinese trade officials in Japan.

These privileges presumably would include customs and tax waivers, guarantees of personal safety and immunity from arrest, use of communication codes, and freedom to travel freely throughout Japan. The use of the Chinese Communist flag, which Peiping has demanded, apparently still would not be permitted under the new proposals. In addition the number of Chinese representatives to be allowed in Japan would not be specified, although the Japanese will attempt to obtain an understanding on a limit of 15 persons.

Japanese economic interests believe the 20-percent drop in Sino-Japanese trade to \$127,000,000 in 1957 resulted from the

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absence of a new trade agreement and are anxious for both an agreement and mission accord. The Japanese Foreign Ministry, however, has recommended to Prime Minister Kishi that, if such an accord is signed, the arrival of the Chinese Communist trade mission be delayed until after the Japanese elections expected some time this year.

The recent \$280,000,000 iron ore - steel barter deal between Communist China and Ja-

pan--negotiated at Peiping's initiative--may be the Chinese reaction to the Kishi government's authorization of "quasi-diplomatic" status for the prospective trade mission. Although some increase in Sino-Japanese trade in 1958 is to be expected as a result of this and other recent trade contacts, a long-range increase in trade and Japanese access to mainland raw materials will depend on further accommodation by Japan to Peiping's political pressure. [redacted] 25X1

[redacted] (Concurred in by ORR) 25X1

PETROLEUM INDUSTRY CONTINUES TO DISAPPOINT PEIPING

Communist China's petroleum industry was responsible for the only significant industrial shortfall during the nation's First Five-Year Plan (1953-1957), achieving less than 75 percent of its goal. Despite heavy imports--averaging some 50 percent of total supply--shortages of petroleum products affected economic programs, most notably the development of truck transport. Peiping last year began to explore more intensively alternate fuel sources for trucks, such as charcoal or coal burners.

The minister of the petroleum industry was removed on 11 February 1958 after admitting to a number of shortcomings in his ministry, including wastefulness and a tendency to build "too large, too soon." He was replaced by Yu Chui-li, an army general with no known previous experience in the petroleum industry, who has enunciated a program based on a more careful and methodical development of all phases of the industry. This year, one of generally ambitious economic goals, the industry plans the smallest production increase thus far. The total output of 1,550,000 tons of crude oil is an increase of only 6

percent over 1957 as compared with an average annual increase of 27 percent achieved in the First Five-Year Plan. Workers in the industry have already pledged to exceed this modest target by 110,000 tons.

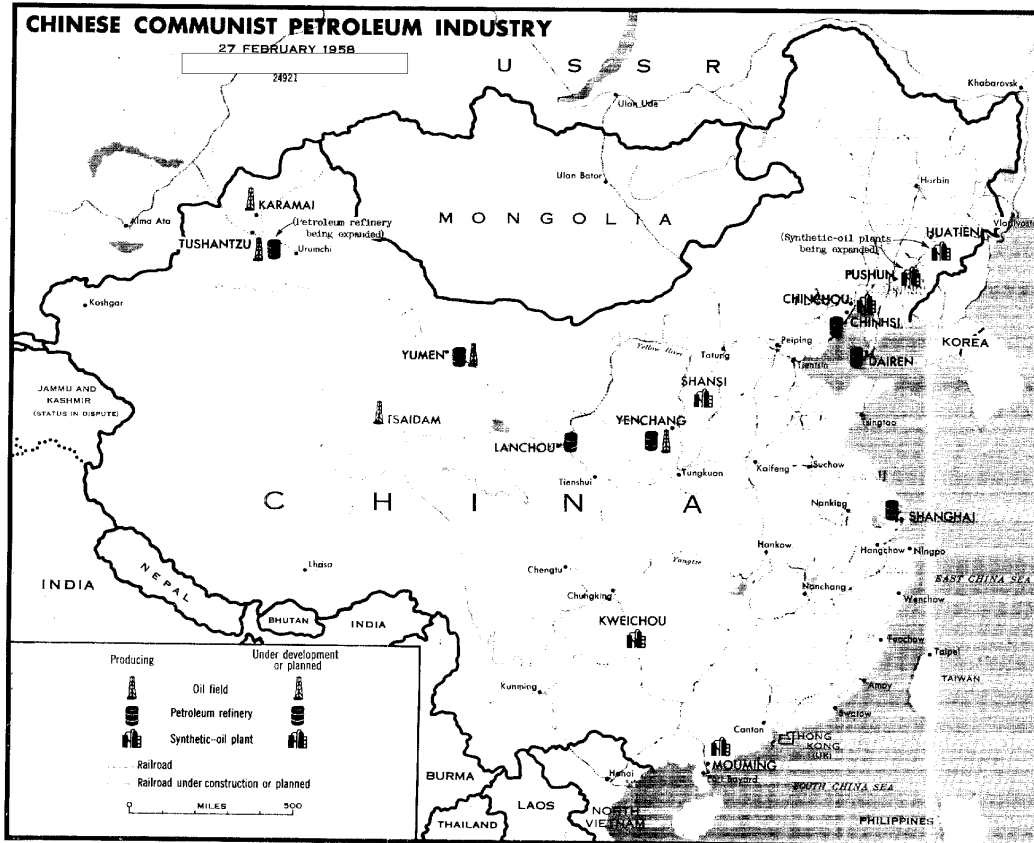
Also reflecting a more careful approach, investment funds for the industry have been sliced below last year. Projects for the year include a 90-mile pipeline from the Karamai oil field to the Tushantzu refinery. Full exploitation of the field, for which Peiping continues to have high hopes, will probably not be possible until the Trans-Sinkiang Railroad is completed sometime in 1959 or 1960. However, Karamai is expected to begin producing on a small scale this year and the refinery at Tushantzu is to be expanded to an annual capacity of 400,000 tons. Construction will be continued on the large, million-ton refinery at Lanchow, which will use crude oil from the Yumen fields brought to the refinery by rail.

Noteworthy in the 1958 program is increased interest in the development of relatively expensive shale-oil and

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synthetic-oil enterprises, indicating not only a more realistic attitude toward the development of natural crude-oil resources but also a need to turn to more readily available resources.

Existing shale-oil plants at Fushun and Huatien will be expanded and preparatory work begun on a new shale-oil plant at Mouming in southwestern Kwangtung to exploit the large reserves of high-quality shale there and provide South China with its own source of oil, now largely supplied from abroad. Also planned is the future development of a synthetic industry using coal as a raw material. This is a still more costly and even less satisfactory substitute, offering only the advantage of location. Peiping has

suggested that experience in the liquefaction of coal in the northeast could be used in similar plants in Shansi and Kweichow Provinces.

The search for natural crude oil--the only long-range answer to China's liquid fuel problem--is to be pressed in various parts of the country. But the search is evidently proceeding with an increased awareness that every oil seep is not an oil field and that an oil field cannot be developed overnight. For some time, domestic sources of petroleum will remain inadequate to meet the rapidly growing demands of China's industrializing economy and imports will continue to be required.

(Prepared by ORR)

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SOVIET ARMED FORCES DAY--40TH ANNIVERSARY

Soviet Minister of Defense Marshal Rodion Malinovsky delivered the major speech in Moscow on 22 February on the eve of the 40th anniversary of Soviet armed forces. In attendance were most of the top political and military leaders. The anniversary had been anticipated for several weeks with commemorative articles in the Soviet press by leading military figures, and the day itself was marked by a large Kremlin reception. As usual, however, there was no military display.

Malinovsky claimed that all branches of the Soviet armed forces are in a state of readiness and are equipped with the latest weapons. He made the usual charges that the West was pursuing an aggressive policy and that the Soviet armed forces must, accordingly, be capable of "inflicting so crushing a counterblow that it will once and for all put an end to any attempts from any quarter to hinder through force of arms the natural progress of the people toward Communism." He observed that the USSR has "rockets of short, intermediate, long, and superlong range action."

Anniversary speeches and articles by military leaders in years past contained similar confident claims. Malinovsky's words seem to have been, on the whole, neither more nor less truculent than those of previous orators on this occasion.

One distinguishing feature of Malinovsky's speech was its frequent invocation of the Communist party and the tribute paid the party's system of political control in the armed forces, a line which has been persistently pursued since the dismissal of Marshal Zhukov as defense minister last October.

Referring to his predecessor, Malinovsky asserted that "the party has justly condemned the mistakes and checked the harmful practices of the former minister of defense, Zhukov, who pursued a policy of abolishing the leadership and control of the army and the navy by the party, its central committee, and the government." Malinovsky did emphasize, however, the importance of a single command in military matters, ruling out the old system of dual control by political commissars and military commanders.

An interesting sidelight to the anniversary celebrations was the appearance of Nikita Khrushchev in military uniform sporting his World War II rank of lieutenant general. Also, in the course of the proceedings, Marshals Budenny, Grechko, and Biryuzov were awarded the coveted title of Hero of the Soviet Union. They were the only marshals of the Soviet Union who did not hold this award.

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SETBACK IN DEVELOPMENT PLANS FOR EASTERN REGIONS OF THE USSR

There is considerable disparity between planned state capital investment in the eastern regions of the USSR for this year and that originally scheduled for 1958 under the defunct

Sixth Five-Year Plan (1956-1960). Only about 27 percent of total Soviet capital investment for 1958 has been earmarked for the eastern area, whereas the original plan allocated 40 percent

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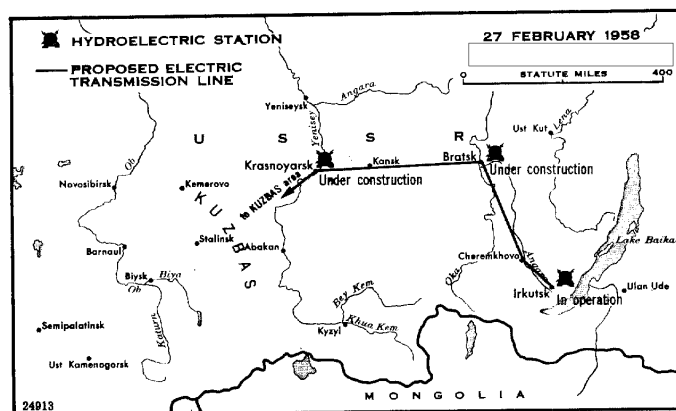
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to this area during the five-year period, suggesting that the rate of development for the area has been retarded, possibly by as much as two years.

Key projects in the development of the area include the Bratsk and Krasnoyarsk hydroelectric power stations. These were formerly scheduled to start partial operation in 1960 and 1961 respectively, but will not now begin operating until 1962 and 1963. Bratsk, with a planned installed capacity of 3,600,000 kilowatts, and Krasnoyarsk, with 4,000,000 kilowatts, will be the largest hydroelectric stations in the world. With a combined production of about 40 billion kilowatts, they will supply power to the major industrial areas of Irkutsk, Krasnoyarsk, and the Kuznetsk Basin (Kuzbas), where large power-demanding industries in such fields as aluminum, magnesium, ferroalloys, chemicals, and probably fissionable materials are to be built.

It is not likely that the completion date of the Bratsk

station has been postponed because of construction problems with the project itself. Last year, its builders three times won first place in the quarterly all-union socialist competition, were awarded the Challenge Red Banner, and fulfilled their ten-month plan 20 days ahead of schedule. The delay is probably the result of a general reduction in the tempo of



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industrialization in the eastern regions. Construction is lagging in most branches of industry in the area, including ferrous and nonferrous metallurgy and coal, and construction at the Bratsk station apparently has been rescheduled to coincide with that of the new industrial plants it will serve. (Prepared by ORR)

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PERVUKHIN NAMED AMBASSADOR TO EAST GERMANY

Mikhail G. Pervukhin has been named Soviet ambassador to East Germany, replacing Georgi Pushkin who returned to the USSR on 9 January. There has been no announcement concerning Pervukhin's position as candidate member of the party

presidium, but his appointment to a position away from Moscow probably means he will be dropped.

Pervukhin has been included in the upper levels of Soviet officialdom for nearly 20 years--as a member of the

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party central committee since 1939 and of the presidium since 1952--but last June, at the time of the purge of Malenkov, Molotov, Kaganovich, and Shepilov, he was demoted from full to candidate membership on the presidium. The fact that his



MIKHAIL G. PERVUKHIN

name did not appear earlier this month on the lists of nominees for election to the Supreme Soviet foretold his current appointment.

While it appears to be a demotion, Pervukhin is

nonetheless well qualified to fill this important diplomatic post. An electrical engineer, he became chief of the Soviet electrical industry in 1939 at the age of 35 and then took on general responsibility for the fuel and chemical industries. His broad experience in the economic field will serve him well in East Germany, where an extensive economic reorganization is under way.

In July 1957, following the purge of the "antiparty group," Pervukhin was named chairman of the new State Committee for Foreign Economic Relations. Semyon A. Skachkov has now replaced him on this committee, which is responsible for directing the expanding economic activities of the USSR with both bloc and free world countries. Skachkov was a party central committee organizer for tank production during World War II, a tractor plant director following the war, later a USSR deputy minister for transport machine building, and most recently chairman of the Kharkov Sovnarkhoz in the Ukraine. He is not a member of the party central committee.

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CZECH AIRLINE LEADS BLOC IN AIR SERVICE TO WEST

Czechoslovakia, having regained most of the West European air routes it held in 1948, has the most extensive civil air operations of the satellites. The Czech airline has recently received three Soviet 70-passenger TU-104-A jet transports and will probably soon resume scheduled flights to Cairo and Damascus. Czechoslovakia already has air agreements with Egypt and Syria, and once a foothold in the Middle

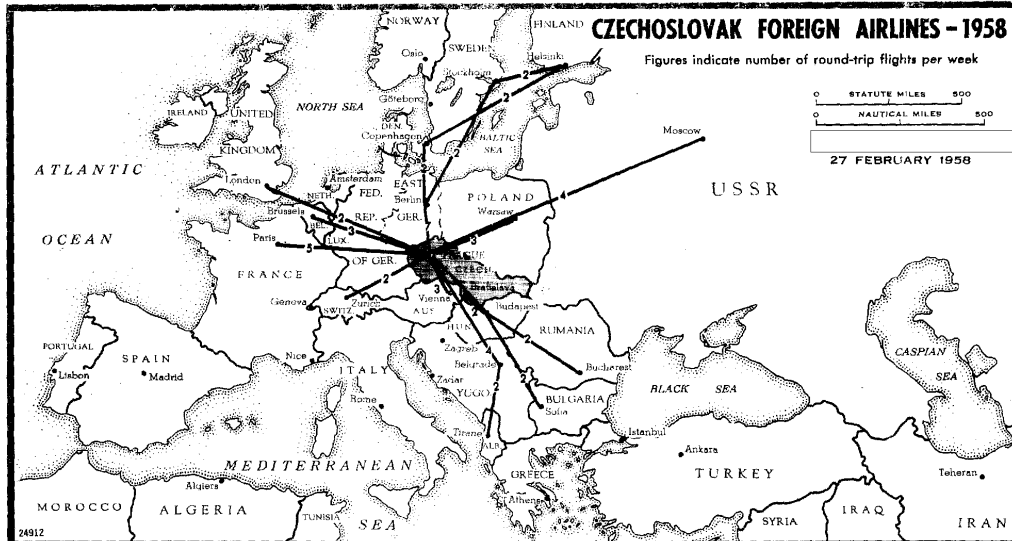
East is regained, the Czechs can be expected to press vigorously to establish further international routes, particularly into South Asia. Prague's interest in expanding air operations to South America has also been reported.

After the Communists took over in February 1948, Czech international flights declined as a result of the bloc policy of curtailing commercial contacts

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with the West, although Czechoslovakia retained its membership in the UN-affiliated International Civil Aviation Organization (ICAO). Poland is the only other bloc member. This decline was accelerated by the Western action to restrict Soviet-satellite airlines to bloc air space. Czechoslovakia's air operations reached their nadir in 1953, when its routes were limited to Sofia, Budapest, Bucharest, the Soviet sectors of Berlin and Vienna, and only one Western European link, Copenhagen.

Shortly thereafter the Soviet policy of restricting relations with the West was relaxed and Prague capitalized on its central position as an exchange point for such services as the Air France - Soviet Aeroflot route between Paris and Moscow and the Indian airline's New Delhi - London route. Czechoslovakia has since been the most active bloc country in seeking air rights in the free world. (Prepared by ORR)

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HUNGARIAN ECONOMIC OUTLOOK FOR 1958

The Hungarian regime may succeed this year either in balancing its foreign trade or in maintaining the standard of living achieved last year, but probably will not be able to do both, as it has planned. Domestic production must be relied on to meet these objectives, since bloc loans of about \$300,000,000 which were largely responsible for Hungary's

industrial recovery during 1957 are unlikely to be made again this year. Living standards of urban workers will probably be sacrificed, and peasant income will also suffer.

The uprising, which the regime says caused nearly \$1.7 billion (at the official rate) worth of damage, put the planned growth of Hungary's

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economy a year behind schedule. Nevertheless, the raw material supply did improve in 1957 through bloc aid, and industrial production, though costlier than the previous year, topped the 1955 level.

Imports in 1957 were 24 percent higher than in 1955, and a \$170,000,000 deficit was incurred. The 1958 industrial plan calls for increased output particularly among those industries likely to contribute to Hungary's export potential. A 22-percent increase in exports and a 12.5-percent reduction of imports are considered necessary this year to balance trade. However, even if Hungary balances its trade in 1958, the basic economic problem of paying its debts to the bloc, which begin to mature in 1959, remains essentially unsolved.

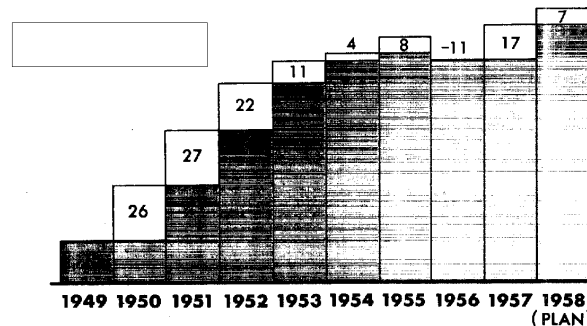
Agricultural production is to be raised this year by 4.6 percent, despite a level of investment which is far short of that for 1955. In contrast to 1956 and 1957, no imports of bread and fodder grains are planned. The need for greater production should preclude extending the collectivized sector in 1958 much beyond its present level of 11 percent--less than half that before the revolution. A recent increase in agricultural taxes, however, will reduce peasant incomes and could later provide a means of forcing private farmers into collectives.

The need for increasing agricultural production will probably also prevent a return to compulsory crop deliveries or a reduction of state buying prices.

Firm measures are being taken to curb theft and waste of state property in industry. The managerial level particularly is under fire because of the growing backlog of uncompleted investment projects, which mounted to more than 150 percent of total 1957 investment at the end of the year.

HUNGARY: GROSS INDUSTRIAL PRODUCTION

ANNOUNCED PERCENTAGE CHANGE OVER PREVIOUS YEAR



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Steps being taken to increase discipline among industrial workers include greatly stepped-up activity by regime-sponsored factory councils, which replaced the revolutionary workers' councils. Recent changes in the wage system, which emphasized making raises contingent on increased productivity, presage a cheerless outlook for the Hungarian worker in 1958.

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THE AFRO-ASIAN WOMEN'S CONFERENCE

The Afro-Asian Women's Conference held in Ceylon from 15 to 24 February apparently maintained the nonpolitical nature which its organizers planned, and the Communists were unsuccessful in their effort to use the meeting as a propaganda vehicle.

Sponsored by Burma, Ceylon, India, Indonesia, and Pakistan, the meeting was attended by about 150 delegates from 19 Afro-Asian countries and by representatives of UNESCO, UNICEF, the World Health Organization, and the International Labor Organization. Five Afghan delegates attended--the first time Afghan women have participated at such a conference.

Topics on the agenda were limited primarily to the fields of education, health, citizenship, slavery, labor, and the promotion of closer contacts among women of the area. However, familiar themes of anti-colonialism, "peaceful coexistence," the banning of nuclear weapons tests, and cessation of the East-West arms race were brought up by delegates from Communist China, Mongolia, and Ghana. No publicity adverse to the West ap-

peared to result from the mention of such topics. The keynote of closing speeches at the conference was the growing spirit of cooperation and friendship existing among women of Afro-Asian countries.

The only incidents of a controversial nature reported were three walkouts by Chinese Communist delegates during the reports of UN agency representatives, on the excuse that Peiping had been deprived of its legitimate rights at the UN. The leading Turkish delegate urged deletion from the record of remarks sympathetic to Communist China reportedly made by the leader of Ceylon's delegation. The issue of Peiping's exclusion from the UN did not otherwise arise.

Chinese Communist delegates concentrated mainly on being friendly at social events. The Chinese Communist ambassador in Colombo, however, aroused some antagonism by several requests prior to the conference to increase the number of Chinese delegates and by bringing pressure to bear on non-Communist leaders during the conference. Such efforts evidently had little effect.

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PART III

PATTERNS AND PERSPECTIVES

CURRENT POLISH-SOVIET RELATIONS

In the past year, Poland seems to have regained a measure of Soviet confidence, and the meetings in January between Khrushchev and Gomulka may have narrowed the areas of disagreement between them. Poland and the USSR have avoided open clashes and misunderstandings. To do this, Polish leaders, while preserving the basic policy outlined at the eighth party plenum in October 1956, have moved to temper the more enthusiastic expectations many Poles attributed to the October 1956 changes.

Internal Affairs

Gomulka to a large extent continues to manage his country's internal affairs, but remains mindful of the necessity of preserving Communist dominance and of not provoking the USSR.

There are some developments in Poland about which Khrushchev and Gomulka are in agreement. Gomulka's efforts to strengthen the party's youth program and to purge anti-Communist elements from the mass organizations, coupled with his determination not to permit workers' councils to interfere with trade union activity, may have increased Khrushchev's confidence in him. Khrushchev's proposal to reorganize machine tractor stations in the Soviet Union appears to parallel very closely Poland's reorganization, and some of the recent suggestions for future changes in Soviet pricing bear some resemblance to the recommendations made by Gomulka's economic council last year.

To combat anti-Soviet attitudes, the Polish regime has tried to prohibit the publishing of criticism of the Soviet Union, has revived the Polish-Soviet Friendship Society, and

has signed an agreement for an extensive cultural exchange with the USSR. In addition, Gomulka has been most circumspect in his own statements about the Soviet Union, and has emphasized the great help it has given Poland. He has not tried to force the population to engage in mass demonstrations of affection for the Soviet Union but has called for self-restraint necessitated by Poland's geographic position.

These efforts, however, have not appreciably altered traditional Polish antipathy toward the Soviet Union. The Polish people ignore, boycott, or privately criticize Soviet plays, literature, art, music, and movies. The anti-USSR feeling which swept across Poland during Khrushchev's attempted interference in internal Polish affairs in October 1956 has not been alleviated by the removal of most Soviet officers from the Polish Army, nor by two agreements since October which established Polish control over the movement of Soviet troops in Poland.

The Polish Army's political commissar wrote of widespread anti-Soviet attitudes within the service in an article for the army's official magazine in mid-June 1957. As recently as December, a poll of Szczecin (formerly the German city of Stettin) residents revealed that anti-Russian and even anti-Communist attitudes were present to an overwhelming degree, a situation to which Gomulka's own periodical, Polityka, has addressed itself.

Ideological Considerations

While some of the causes for Soviet concern over Polish ideological developments have been eliminated, basic

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disagreements continue to exist and are unlikely to be settled in the near future. Gomulka has probably eased Soviet worries by his clear adherence to the principle that the party has the leading role in the Communist state, and, by his attempts to strengthen his party through the purge introduced at the tenth plenum.

On the other hand, ideological disagreement between the two countries is evident in the attacks on Polish policy and on ideological debate which has been stepped up in both Soviet and satellite publications since the November anniversary meeting in Moscow. These articles particularly rankle the Poles because some of them have criticized established Polish policy in the field of agriculture and church relations. Other articles criticized material which appeared in the Polish press in earlier periods, yet failed to mention the fact that its appearance was immediately followed by expressions of official Polish disapproval.

Poland has heretofore been firm in opposing the formation of an international Communist organization, as well as participation in the publication of a journal of international Communism. The various Communist parties reportedly decided last November that such a journal would be published, and Poland's continued refusal to contribute may be one of the reasons why this journal has not yet appeared.

Gomulka's activity at the November Moscow conference of Communist leaders is still the subject of various reports alleging that he succeeded in his efforts toward softening the language of the final communiqué, particularly in regard to the rate of agricultural collectivization, the leading role of the Soviet party in the work of other Communist parties, and the dangers of revisionism. Since the reports may have been tailored to appeal to Western

observers, they must be viewed with reserve.

The subsequent Soviet and satellite propaganda campaign against revisionism, using Polish writers as the example, suggests that Gomulka did at least succeed in the insertion of the clause permitting each party to decide for itself the degree of the threat posed by revisionism.

Foreign Policy

Warsaw before Gomulka consistently followed the USSR's lead in its policy toward the West, presuming only to modify Moscow's propaganda tone. Poland sees eye to eye with the USSR on the Oder-Neisse line and on a demilitarized Germany, and this identity of interests has helped to prevent serious policy deviations in other areas. Gomulka declared in the London Times interview that Poland's "International policy is and will be in accordance with the policy of the whole Socialist camp."

Poland's expanded contacts with the West have not been inconsistent with Soviet policy statements. Poland has justified its acceptance of Western economic assistance by its desperate economic situation, though this acceptance was probably not pleasing to the Soviet Union. The USSR's failure to respond to repeated Polish requests for more economic support has left it little choice but to concur in Poland's reception of Western aid.

Outwardly Poland's relations with Yugoslavia have been within the limits of the publicly announced Soviet policy of friendship and cooperation with Yugoslavia. Soviet leaders apparently were not officially informed of the subjects discussed by Gomulka and Tito last September, and may have been expressing disapproval of the talks by virtually ignoring in their propaganda media the fact that they even took place. However, Gomulka took great pains

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to assure the USSR of his friendship and fidelity in the speeches he made in Yugoslavia.

Poland regards its plan for a nuclear-free zone in central Europe as a step toward attaining greater independence in the field of foreign affairs. The Rapacki plan was a major topic at two meetings between Soviet and Polish leaders in January. Foreign Minister Rapacki has little hope that the plan will be fully accepted, but hopes to promote discussion of it as a stimulant to East-West talks. To this end the Polish leaders apparently convinced Soviet leaders to agree to limit the plan's geographic scope and to permit the Poles to propose more detailed discussion of control factors than has been normal Soviet practice.

Prospects

Polish-Soviet relations will probably remain on their present plane for the foreseeable future since Gomulka is likely to continue generally to support the Kremlin's foreign policy while avoiding internal actions that would offend the Soviet leaders. Poland may in time attain a small measure of independence in the international arena, within the obvious limitations imposed by its relationship with the USSR. Khrushchev is probably satisfied that Gomulka's rule in Poland is not having disastrous consequences for bloc unity and therefore he will probably not oppose those Polish innovations introduced up to now. The seeds of continuing differences in the internal and ideological fields remain.

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SINO-SOVIET BLOC AID AND TRADE OFFENSIVE ENTERS FIFTH YEAR

Soviet statements at the Afro-Asian Solidarity Conference in Cairo and the UN Far East Economic Commission meeting in Bangkok indicate that the bloc this year will continue to expand its trade and aid program in underdeveloped free world countries. The Middle East and South and Southeast Asia, which have received 75 percent of total bloc aid to date and all of the \$560,000,000 worth of aid the bloc has extended since mid-1957, will probably continue to receive major attention. However, stepped-up economic relations are likely to be promoted with Latin American and African countries, particularly those suffering from depressed markets for their major exports.

Since mid-1957, two large credits and a number of smaller ones have been extended by the bloc; obligations have been assumed under large credits previously offered; progress continues on projects started in earlier periods; trade continues to increase; arms deliveries continue; and agreements have been made for additional deliveries after present contracts expire. Bloc countries now are either negotiating or planning agreements with underdeveloped countries which have heretofore accepted little or no bloc assistance.

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**SINO-SOVIET BLOC AID
TO UNDERDEVELOPED AREAS SINCE MID-1957**
(MILLIONS OF DOLLARS)

MIDDLE EAST	
EGYPT	231
Soviet economic development loan	175
Czech economic development loan	56
SYRIA	198
Soviet economic development loan	168
Soviet arms agreement	30
YEMEN	41
Chinese economic assistance loan	16
Soviet economic assistance loan (probably concluded Jan. 1958)	25(MIN)
SOUTH AND SOUTHEAST ASIA	
INDIA	25
Czech loan for Ranchi foundry	25(MIN)
CEYLON	50
Soviet economic assistance loan	31
Chinese economic assistance loan	16
Czech economic assistance loan	3
BURMA	13
Soviet loan for agricultural development	9
Chinese loan for textile industry	4
TOTAL	558

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New Offensive

The boldness of the economic offensive in recent months is traceable in part to the bloc's new prestige gained by fulfilling its economic assistance commitments and by the launching of the sputniks. The skepticism which greeted offers in the past has been largely dispelled.

The uncertainties that may have induced Soviet leaders to be cautious about increasing their foreign economic commitments, particularly in the period immediately following the Hungarian uprising, have largely been overcome. The bloc now is in a position to exploit the opportunities that appear and to create additional ones.

The importance the USSR attaches to its economic offensive was indicated by the creation of the State Committee for Foreign Economic Relations in July 1957 to replace the Chief Directorate for Economic Relations, a lower ranking body. The committee controls economic organizations which in turn pre-

pare aid and trade offers and arrange aid and trade programs. These organizations prepare plans for factories to be built abroad, supply foreign governments with technicians, and arrange for the production and delivery of equipment. Since the committee's creation, continuing reorganization apparently has taken place to enable it to do its job more efficiently and to cope with new foreign trade problems.

Preliminary data on 1957 bloc trade with underdeveloped countries indicate that total turnover may have been about 25 percent greater than in 1956. During the first six months of the year, bloc trade in this area was about \$1,850,000 on an annual rate basis. The level of trade in 1956 was about \$1,480,000. The bloc's exports to underdeveloped countries rose significantly during 1957, but its imports increased even more and were up to 40 percent higher than in 1956.

Sino-Soviet bloc credits and grants to underdeveloped countries now total about \$2 billion. New credits were offered to only a limited extent between mid-1956 and mid-1957 but were increased during the last half of 1957 by about \$400,000,000.

Some new agreements already have been negotiated in 1958, and there are several bloc offers outstanding on which negotiations may be opened during the coming months. The USSR is offering Iran a general plan of assistance for economic development as well as a number of separate, specific proposals, including one for the development of petroleum in northern

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Iran. Poland has offered technical assistance and a credit to Brazil for the development of its iron ore. General bloc offers to other underdeveloped countries, including Tunisia, the Sudan, Ghana, and Pakistan, appear to remain open for consideration.

Latin America, confronted with falling world prices for its chief exports of agricultural goods and minerals, is also receiving renewed attention. An Argentine mission now in the bloc seeking to use up trade credits earned there during the past two years has expressed willingness to consider a bloc offer of additional credits for industrial goods normally imported from the West. Argentina has neither the credits nor the foreign exchange with which to purchase these goods from the West.

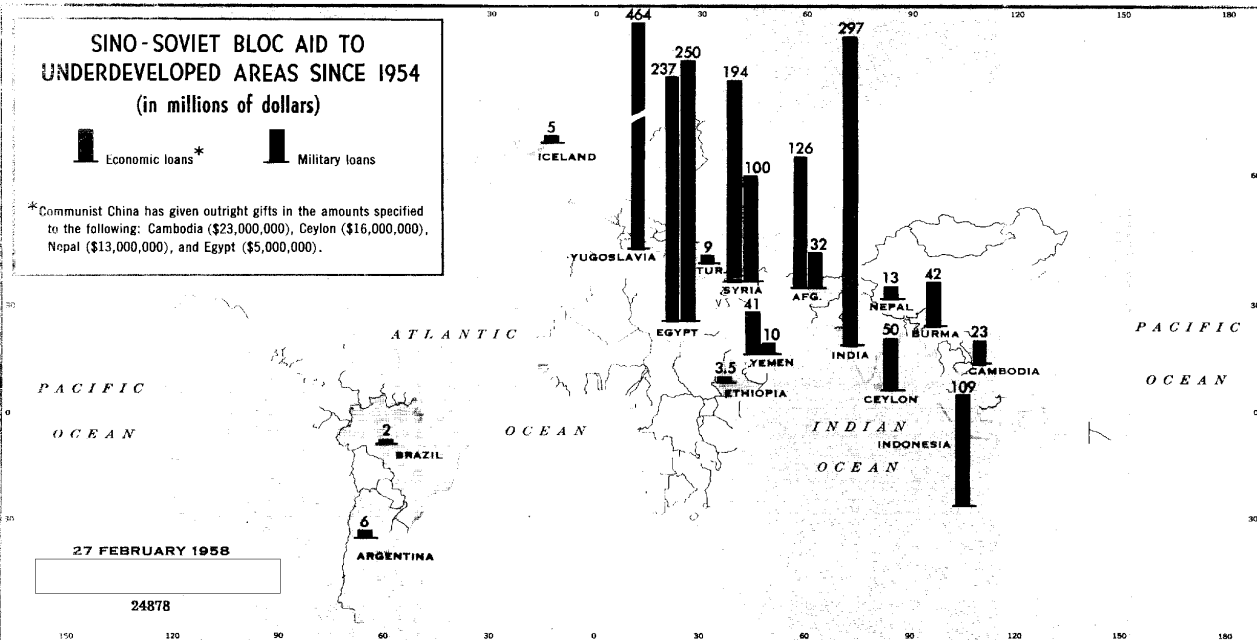
Elsewhere in Latin America, particularly in Uruguay, Colombia, and Brazil, bloc missions are offering both loans and the exchange of industrial goods for surplus agricultural

products. Chile, faced with depressed markets for its copper, has indicated an interest in selling copper wire to the USSR.

Methods

In addition to inviting delegations to the Afro-Asian Solidarity Conference meeting in Cairo in December 1957 to submit requests for assistance for economic development, the Soviet participant, in an attempt to create an investment climate unfavorable to private venture capital, recommended the nationalization of foreign-owned enterprises as a means of obtaining capital for development.

It is increasingly the practice of the bloc to accept payments of a loan in terms of specific commodities from the one-crop nations, or to accept local currencies from states such as India, with the result that the bloc is carving out for itself a larger share of the foreign trade of these countries.



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In January, the USSR's delegate at the Bangkok meeting of the UN Economic Commission for Asia and the Far East (ECAFE) cites as major causes of current difficulties in the ECAFE the reduced demand for raw materials resulting from the business "recession" in capitalist countries and the area's heavy trade deficit with the United States. He said the USSR would grant credits of up to five years for the purchase of machinery and equipment by underdeveloped countries of the region, and would study the possibilities of signing long-term agreements for purchase of certain basic export items of the area.

Observers from Czechoslovakia and Hungary also offered to discuss long-term agreements under which their countries would acquire area raw materials directly rather than through international markets as they now do.

Limitations

In the long run there are certain disadvantages which the USSR must overcome if it is to threaten the present commercial superiority of the principal capitalist countries. The present reliance on bilateral trade arrangements restricts the range and total volume of transactions. Often the problem of making periodic bilateral settlements is solved by restricting trade so as to minimize imbalances.

The inconvertibility of Soviet and satellite currencies

has not hindered the expansion of trade, except in Latin America, but it will pose problems for Moscow as trade is further increased.

The USSR has an advantage in its ability to propose either general or specific aid offers on short notice, thus exploiting situations as they arise. However, once a program is under way, the USSR appears to be considerably less flexible. This is partly a result of its planned economy. The committee responsible for foreign aid may have to consult with as many as 100 regional economic councils when setting up production schedules for aid goods.

The USSR already this year has refused a request for changes in the operation of its aid program in India.

Moscow may find that widespread foreign assistance generates new problems. The success of an aid program in one country may give rise to criticism from other countries where the results of development loans are not so spectacular. The Soviet Union urged Syria to accept Soviet loans for its development program which had been acknowledged by most economic experts as a reasonable scheme and likely to succeed. On the other hand, Egyptian requests for economic development loans were not enthusiastically received by Moscow since they were not expected to produce as favorable results as Syria's.

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ECONOMIC CONDITIONS IN TURKEY

The Turkish Government failed in 1957 to carry out many stabilization measures which it had adopted the previous year. As a result, last year's apparent slight economic advance was achieved at the price of increased monetary instability. Although Ankara maintains that inflation will be halted in 1958 and has presented a balanced budget, the prospects for success seem doubtful, barring a marked shift in government policy and substantial outside aid.

The Financial Problem

Turkey has been seeking since 1950 to develop its economy as fast as possible. Industrial as well as agricultural production--the mainstay of over 80 percent of the population--has been substantially increased. While industrial production has risen 61 percent in real terms since 1948, agriculture still accounts for about half the national income. The gross national product in current prices has climbed almost 140 percent since 1950, but the real increase in per capita income has been small because of the rapid rise in prices.

Ankara's financial problem has been caused largely by its policy since 1950 of maintaining a rate of investment substantially higher than warranted by available internal and external resources. The resulting inflation has either largely mitigated or wiped out many of the gains from investment.

By 1956, Turkey's attempt to build its economic house without a plan and without apparent regard for the consequences had brought the problem to a crisis. The government--in response to pressures from the United States, the OEEC, and the International Monetary Fund--adopted a policy of keep-

ing investment within the limits of available noninflationary financing. A maximum of \$130,000,000 was to be made available for 1956 from noninflationary sources and a finance committee was to be established to supervise expenditures.

However, the usual political pressures for more spending proved irresistible and a total of \$308,000,000 was committed during the year. This 130-percent overexpenditure forced prices up while the Turkish pound continued to depreciate. Similarly in 1957, Turkey presented a balanced budget which nonetheless ended in a substantial deficit. There are indications, however, that the Turkish Government is viewing its economic problem more seriously and may be willing to make substantial economic policy changes. These moves would be conditional on a substantial multilateral aid program involving the OEEC, the United States, and the International Monetary Fund.

Foreign Trade

The Turkish Government's encouragement of foreign borrowing to acquire materials for industrialization resulted in a trade deficit of over \$100,000,000 in 1956 and almost half a billion dollars in the last three and a half years. Turkey's foreign debt probably totals more than \$1.2 billion.

Government restrictions reduced the trade deficit somewhat during the first eight months of 1957 but resulted in widespread shortages of consumer goods and raw materials. Thus, factories dependent on foreign raw materials were idle or operated part time while the government plunged further into debt to build more plants. The General Electric light-bulb plant in Istanbul, for example, was idle from August 1957 to

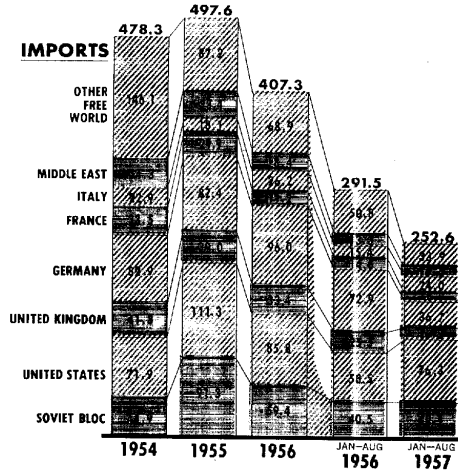
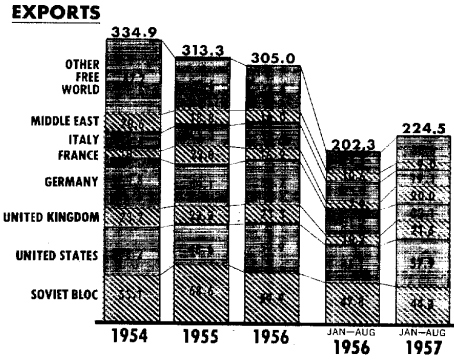
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TURKEY: FOREIGN TRADE 1954-1957
MILLIONS OF DOLLARS



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early February 1958 for lack of \$75,000 in foreign exchange needed to purchase raw materials. Government agricultural pricing policies have caused a gross distortion of local prices compared with world prices, and, in many cases, exports are made possible only by government subsidies.

Turkey's trade with the Soviet bloc has been increasing in recent years. In the first eight months of 1957, the bloc accounted for about 18 percent of total trade. West Germany and the United States provided about 45 percent of Turkey's imports in 1956 and took about 36 percent of its exports.

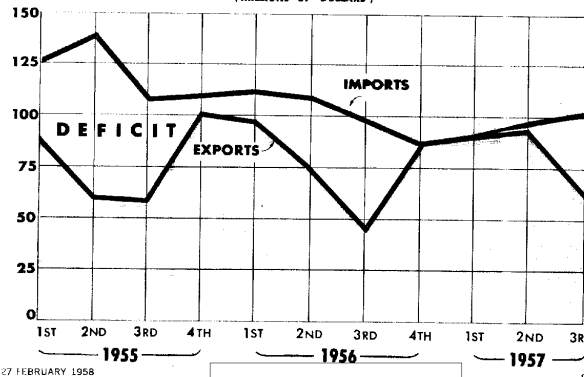
Accomplishments

Despite the serious monetary instability, economic activity in Turkey has increased considerably during the past several years. This higher production, however, could have been attained with considerably less cost had the government adopted a ra-

tional investment program. Still, from the Turkish point of view, these years have been marked with success despite the present financial problems. The gross national product in real terms--eliminating the effects of increased prices--was about 43 percent higher at the end of 1955 than in 1948. In addition, industrial development grew faster than the economy as a whole.

Much of the investment has been in projects with a long-term payoff, such as electric power plants, but which are a prerequisite for further

TURKEY: TRADE BALANCE
(MILLIONS OF DOLLARS)



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development. The production of electricity, gas, and water has increased faster than for any other type of industrial activity, and by the end of 1955 had increased 128 percent over 1948.

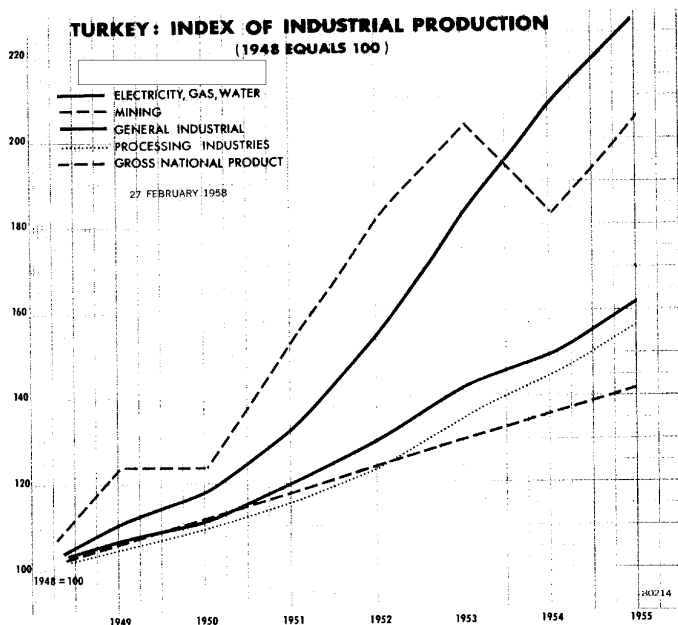
While industry has received favored treatment, improvement in agriculture and the raising of farm incomes have been a major economic and political goal of the present government.

growing money incomes have increased domestic consumption of agricultural products in many cases rather than making higher production available for export. This also holds true for many products of industry.

Oil

In early 1954 Turkey passed a liberal petroleum law which opened the country to foreign oil companies and ended the government's monopoly on oil exploration. Since then at least a dozen Western companies have received concessions, but no major discoveries have been made. The only production is from the Raman field (4,000 barrels per day) in south-eastern Anatolia, discovered in 1941, and the Garzan field (2,300 barrels per day) in Thrace, discovered in 1951. The proved reserves of these two fields are estimated to be about 65,000,000 barrels, a relatively small quantity even when measured against Turkey's own requirements of only about 10,000,000 barrels annually.

TURKEY: INDEX OF INDUSTRIAL PRODUCTION
(1948 EQUALS 100)



From 1949 to 1955 the number of tractors increased seven-fold to over 41,000 units. An extensive training program designed to acquaint farmers with modern agricultural developments has been undertaken with varying degrees of success. Physical factors, however, still dominate the Turkish agricultural picture. Crop production fluctuates widely, varying with the amount of rainfall and causing an unstable national income. Wheat yields, for example, may vary from 636 to 1,153 pounds per acre.

As a result of the high level of investment, rapidly

Ankara has high hopes for oil discoveries. As economic development continues, the country's petroleum consumption is increasing substantially and continues to be a large factor in the balance-of-payments deficit. In 1956, domestic production supplied less than 18 percent of requirements.

Monetary Survey

The financial sector of Turkey's economy mirrors the general deterioration of the economy since 1950. All monetary indicators paint an exceedingly gloomy picture and suggest a further deterioration

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unless the government takes drastic action. The government's reckless borrowing spree has resulted in near chaos as prices continue to spiral upward and government debt increases alarmingly. Since 1950, wholesale prices have increased over 180 percent, resulting in a concomitant rise in the cost of living. The creation of money for investment has increased central bank claims by over \$1.4 billion in the last seven years and has expanded the money supply from about \$715,000,000 in 1950 to over \$2.1 billion by the end of 1956.

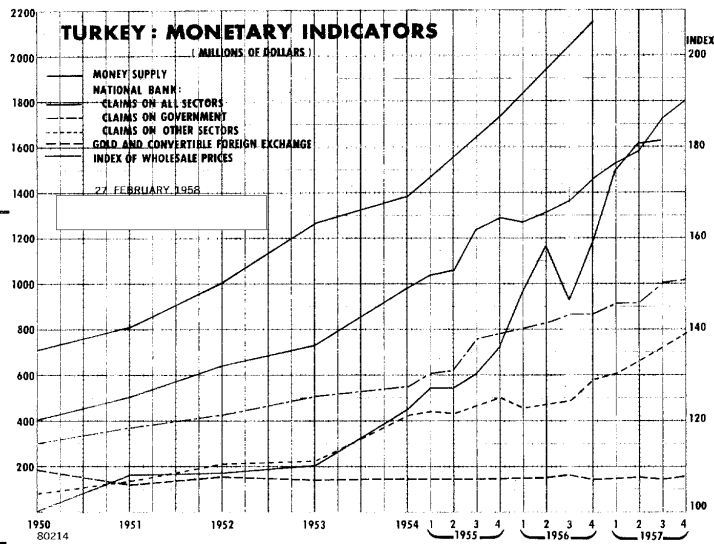
The government's recent price control measures will probably fail, as virtually all such measures have in the past. Through a series of exceptions, the prices of goods will be allowed to rise until the upward spiral of prices is again in full swing.

The Turkish foreign exchange position is exceedingly weak, and the government is operating on a hand-to-mouth basis. Oil companies have refused to extend further credit and will make deliveries only on a cash basis. Since Turkish capabilities to increase exports are limited, the balance-of-payments problem can be solved only by a substantial reduction in imports of capital goods and building materials.

Prospects

Turkey's major trading partners are seeking a devalua-

tion of the Turkish pound accompanied by stringent measures to restrict increases in domestic consumption and to reduce sharply the country's investment program. The Turkish pound, now officially pegged at 2.8 to the dollar, has been selling for up to 14 to the dollar in Beirut. Some economists believe an eight-to-one rate would be realistic. While a devaluation probably would provide welcome relief, the results would be transitory



unless accompanied by a substantial change in the government's economic policy. Ankara thus far remains adamant in rejecting both devaluation and a lower level of investment.

Ankara's attitude toward its financial situation suggests that the Turks believe that in the event of a major crisis, Western economic aid would be forthcoming in amounts adequate to see Turkey through its problems.

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